

**Financial Statements**

**Berrien Mental  
Health Authority**

**Benton Harbor, Michigan**

**September 30, 2005**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Berrien Mental Health Authority</b>	County <b>Berrien</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>11/23/05</b>	Date Accountant Report Submitted to State: <b>3/29/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Roslund, Prestage &amp; Company, P.C.</b>			
Street Address <b>308 Gratiot Avenue</b>	City <b>Alma</b>	State <b>MI</b>	ZIP <b>48801</b>
Accountant Signature 		Date <b>3/29/06</b>	

Berrien Mental Health Authority  
Table of Contents  
September 30, 2005

**Independent Auditor's Report**

**Management's Discussion and Analysis** I - VIII

**Basic Financial Statements:**

Government-Wide Financial Statements:

Statement of Net Assets	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet – Governmental Funds	3
------------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
---	---

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5 - 6
--	-------

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
---	---

Statement of Net Assets – Proprietary Funds	8
---	---

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9
---	---

Statement of Cash Flows – Proprietary Funds	10
---	----

Notes to the Financial Statements	11 - 26
-----------------------------------	---------

**Required Supplemental Information:**

Budgetary Comparison Schedules	27 - 28
--------------------------------	---------

**Other Supplemental Information:**

Individual Fund Statements:

General Fund – Statement of Expenditures	29 - 30
--	---------

Government Auditing Standards Audit Reports	31 - 32
---	---------



## **INDEPENDENT AUDITOR'S REPORT**

Berrien Mental Health Authority  
Benton Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Berrien Mental Health Authority (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-VIII, and budgetary comparison information on pages 27 – 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 23, 2005

## **MANAGEMENT'S DISCUSSION and ANALYSIS**

# **BERRIEN MENTAL HEALTH AUTHORITY**

## **Management's Discussion and Analysis**

*For the year ended September 30, 2005*

This section of the Berrien Mental Health Authority (BMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2005. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Michigan Department of Community Health (MDCH) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. Summit Pointe (the Community Mental Health Authority of Calhoun County) is the designated Medicaid PIHP for a region consisting of Barry, Branch, Berrien, Calhoun, and Van Buren counties. BMHA is affiliated with and subcontracts for Medicaid funding through Summit Pointe, rather than directly with the state. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

### **FINANCIAL HIGHLIGHTS**

1. Operating results showed a loss of \$1.549 million. Included in the loss was Medicaid reinvestment expenses of \$1.732 million covered by Medicaid restricted fund balance and \$367 thousand of unspent Medicaid reinvestment funds transferred to Summit Pointe. Excluding these Medicaid reinvestment effects, results from current year operations was a surplus of \$550 thousand. (1)
2. Unrestricted net assets increased \$564 thousand or 44.3% to \$1.838 million. (2)
3. Capital assets increased \$334 thousand not taking into effect depreciation. (3)
4. BMHA purchased its first piece of property during the year. A physician's office building in Niles was purchased and renovated for use by our outpatient therapists in South county. This new building replaces an office that was leased for more than 25 years.
5. In fiscal 2005, an agreement was reached between the Department of Community Health, Summit Pointe and the BMHA whereby unspent Medicaid Reinvestment funds of \$367 thousand would not be lapsed to the State. These funds will transfer to Summit Pointe and return to BMHA in fiscal 2006 to be used to meet the mental health and substance abuse service needs of Medicaid-eligible citizens of Benton Harbor residents.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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## **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are government-wide statements and fund statements.

**Government-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.



**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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**SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2005 and 2004.

**Summary of Net Assets**

*As of September 30, 2005 and 2004*  
*(In \$000s)*

	<u>2005</u>	<u>2004</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<b><u>Assets</u></b>				
Current assets	\$ 5,063	\$ 6,682	\$(1,619)	-24.2%
Restricted assets	380	398	(18)	-4.5%
Capital assets	780	735	45	6.1%
<b>Total assets</b>	<b><u>6,223</u></b>	<b><u>7,815</u></b>	<b><u>(1,592)</u></b>	<b>-20.4%</b>
<b><u>Liabilities</u></b>				
Current liabilities	3,299	3,382	(83)	-2.4%
Noncurrent liabilities	598	558	40	7.1%
<b>Total liabilities</b>	<b><u>3,897</u></b>	<b><u>3,940</u></b>	<b><u>(43)</u></b>	<b>-1.1%</b>
<b><u>Net Assets</u></b>				
Investment in capital assets	413	449	(36)	-8.0%
Restricted for Medicaid Savings	-	2,099	(2,099)	-100.0%
Restricted for risk management	74	53	21	39.9%
Unrestricted	1,838	1,274	564	44.2%
<b>Total net assets</b>	<b><u>\$ 2,325</u></b>	<b><u>\$ 3,875</u></b>	<b><u>\$(1,550)</u></b>	<b>-40.0%</b>

**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$1.8 million, a decrease of \$1.6 million from the prior year. This decrease is primarily due to the transfer of Medicaid reserve funds to the PIPH. (4)

**Current assets** consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations.

**Current liabilities** include accounts payable, accrued payroll, related taxes, benefits, deferred revenue and amounts due to others. At year-end, current liabilities include \$308 thousand of unspent Medicaid funding that are due to the PIPH under the local

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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service area subcontract agreement. At year-end, expenses under the state general fund risk contract were less than funds provided by \$255 thousand. This amount has been recorded as deferred revenue in current liabilities to be carried forward and used in fiscal 2006. At the end of fiscal 2005, an estimated \$961 thousand of contract provider liabilities, was not recorded in current liabilities, revenue or expense. This amount has been recorded by Summit Pointe (the PIHP) on behalf of the BMHA and Summit Pointe has guaranteed funds to pay these liabilities in the next fiscal year.

**Restricted assets** consist of cash and accrued interest receivable. These assets are restricted for payment of compensated absences and risk management exposure. Restricted assets of \$380 thousand have decreased \$18 thousand from the prior year. (5)

Assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract. This risk reserve fund has been increased to \$74 thousand and is the equivalent of 1.5% of the funds at risk.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. These assets are stated at their original book value, net of accumulated depreciation.

In fiscal 2005, \$334 thousand was expended for capital acquisitions. Depreciation expense was \$290 thousand. The net change in capital assets was an increase of \$44 thousand for the year. When depreciation expense exceeds capital expenditures, the net decrease represents a reduction in capital resources available for the future. (6)

As of year-end, the net book value of capital assets was 19% of the original book value, compared to 20% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If the percentage is low, it means that property and equipment is relatively old.

**Non-current liabilities** consist of the liability for compensated absences that includes vested vacation and sick pay obligations, the long term portion of the telephone equipment loan, the loan on the Niles office building and vehicle loans. (7)

**Restricted net assets** include investment in capital assets, net of related debt, amounts restricted for Medicaid Savings Reinvestment (2004 only) and for risk management. These were discussed on page I. It is unknown at this time whether the MDCH will require the return of all general fund reserves in fiscal year 2006. (8)

**Unrestricted net assets** at the end of the year were \$1.8 million, an increase of \$564 thousand or 44.2% for the year. Unrestricted net assets were 29.5% of total assets, up from 16.3% at the end of the prior year. (9)

## **SUMMARY OF ACTIVITIES**

The following summarizes the revenue, expenses and change in net assets on a government-wide basis for the years ended September 30, 2005 and 2004.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

**Summary of Activities**

*For the years ended September 30, 2005 and 2004*

*(In \$000s)*

	<u>2005</u>	<u>2004</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<b><u>REVENUE</u></b>				
Medicaid specialty supports and services	\$ 18,815	\$ 20,217	\$ (1,402)	-6.9%
State general fund priority populations	4,866	4,903	(37)	-0.8%
Adult benefit waiver program	581	735	(154)	-21.0%
MI Child	25	27	(2)	-7.4%
Program service revenue	730	713	17	2.4%
Grants and earned contracts	581	581	-	0.0%
County appropriation	500	500	-	0.0%
Interest income	123	42	81	192.9%
Other local income	24	28	(4)	-14.3%
<b>TOTAL REVENUE</b>	<b><u>26,245</u></b>	<b><u>27,746</u></b>	<b><u>(1,501)</u></b>	<b>-5.4%</b>
<b><u>EXPENSE</u></b>				
Contractual providers	14,163	15,964	(1,801)	-11.3%
Program operations	8,742	7,831	911	11.6%
Managed care administration	613	491	122	24.8%
General & Board administration	3,234	3,893	(659)	-16.9%
Local funds contributed to State	385	384	1	0.3%
Depreciation	290	324	(34)	-10.5%
<b>TOTAL EXPENSE</b>	<b><u>27,427</u></b>	<b><u>28,887</u></b>	<b><u>(1,460)</u></b>	<b>-5.1%</b>
<b>NET (EXPENSE) OVER REVENUE</b>	<b>\$ (1,182)</b>	<b>\$ (1,141)</b>	<b>\$ (41)</b>	<b>3.6%</b>
<b>MEDICAID RESTRICTED FUND TRANSFER</b>	<b><u>\$ 1,732</u></b>	<b><u>\$ 876</u></b>	<b><u>\$ 856</u></b>	
<b>NET CHANGE IN UNRESTRICTED FUNDS</b>	<b><u>\$ 550</u></b>	<b><u>\$ (265)</u></b>	<b><u>\$ 815</u></b>	

**Excess of Expense over Revenue** from activities for the current year was \$1.2 million or 4.5% of revenue. This is an increase of \$41 thousand or 3.6% from the prior year loss of \$1.1 million or 4.1% of prior year revenue. (10)

**Revenue** for the year was \$26.3 million, a decrease of \$1.5 million or 5.4% from the prior year.

**Medicaid specialty supports and services revenue** of \$18.8 million represents 71.7% of total revenue and decreased \$1.4 million or 6.9% compared to the prior year. Rather than providing Medicaid funds to BMHA for an estimated \$961 thousand of BMHA contract provider liabilities, Summit Pointe chose to guarantee payment of these liabilities in the next fiscal year.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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This Medicaid subcontract is on a net cost not to exceed basis. Unspent Medicaid subcontract funds of \$308 thousand are not revenue and are shown as amounts due to the PIHP as discussed on page III of this section. (11)

**State general fund priority population revenue** (formula funding) and (categorical) of \$4.9 million represents 18.5% of total revenue and decreased \$37 thousand or .8% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There was \$255 thousand carried forward into fiscal 2006 and there was no lapse of state general funds to MDCH in the current year. (12)

**Program service revenue** of \$730 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. This represents 2.8% of total revenue and has increased \$17 thousand or 2.4% over the prior year. This revenue is becoming a significant source of local funds to meet match fund requirements and contribute to increased unrestricted fund balance.

**Grants and earned contract revenue** of \$581 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 2.2% of total revenue and remained the same as the prior year.

**County appropriation revenue, interest income and other local income** totaling \$647 thousand are available to meet state matching fund requirements. These revenue sources constitute 2.5% of revenue and have increased \$77 thousand or 13.5% from the prior year. The county appropriation was unchanged. The increase is attributable to higher interest rates than we saw in the prior fiscal year.

**Total expense** of \$27.4 million has decreased \$1.5 million or 5.1% compared to the prior year. Personnel expense of \$8.7 million is 31.8% of total expense and has increased \$385 thousand or 4.7%. Operating expense of \$18.7 million is 68.2% of total expense and has decreased \$1.5 million or 5.1%. Decrease in operating expense was a direct result of Summit Pointe transferring all of the Medicaid IBNR to their books resulting in a decrease in expense on the books of the BMHA.

## **BUDGET**

The fiscal 2005 budget process was particularly challenging, given the changes in the Medicaid funding from Summit Pointe.

## **MDCH AUDIT**

On December 5, 2005, MDCH began their audit of fiscal year 2004. The results of this audit could require prior year adjustments and a payback to the MDCH. While the preliminary results of this audit may be known by the end of fiscal 2006, final results

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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may not be known for several years. Management's expectation is there will not be any significant impact on the 2004 fiscal year.

### **FUTURE OUTLOOK**

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health specialty supports and services is unknown, but the outlook does not look favorable.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of BMHA is currently fair, balancing the priorities and budgets will become increasingly more difficult. The on-going attempts to smooth the results of rebasing may have a negative impact on the financial stability of the BMHA.

\* \* \* \* \*

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

### **REFERENCE NOTES**

- (1) Lapsed Medicaid revenue is included in the Current Liabilities section of the Statement of Net Assets, Page 1.
- (2) Reference to Net Assets section of the Statement of Net Assets, Page 1.
- (3) Reference to Expenditures section of the Statement of Revenues, Expenditures and Changes in Fund Balances, Page 6.
- (4) Reference to Total Current Assets and Total Current Liabilities sections of the Statement of Net Assets, Page 1.
- (5) Reference to Non-current Assets section of the Statement of Net Assets, Page 1.
- (6) Reference to Expenditures section of the Statement of Revenues, Expenditures and Changes in Fund Balances, Page 6. Also reference Summary of Activities - Expense section on the Management Discussion and Analysis, Page V.
- (7) Reference Liabilities section of the Statement of Net Assets, Page 1.
- (8) Reference Net Assets section of the Statement of Net Assets, Page 1.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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- (9) Reference Net Assets section of the Statement of Net Assets, Page 1.
- (10) Summary of Activities on Page V of the Management Discussion and Analysis references the Statement of Activities in the audit report on Page 2. Total Revenue of \$26.245 million references three figures from Page 2: Charges for Services, Operating Grants and Contributions, and General Revenues.
- (11) Reference is to Revenue section of the Summary of Activities on Page V of the M D & A.
- (12) Reference is to Revenue section of the Summary of Activities on Page V of the M D & A.

**BASIC FINANCIAL STATEMENTS -  
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Berrien Mental Health Authority  
Statement of Net Assets  
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$4,361,022	\$5,993,661
Accounts receivable, net	510,959	470,712
Due from other governmental units	52,321	92,798
Prepaid items	138,193	124,489
Total current assets	<u>5,062,495</u>	<u>6,681,660</u>
Noncurrent assets		
Cash and cash equivalents - restricted	380,348	397,838
Capital assets - depreciable, net	779,754	735,480
Total noncurrent assets	<u>1,160,102</u>	<u>1,133,318</u>
Total assets	<u>6,222,597</u>	<u>7,814,978</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	1,802,280	2,439,494
Accrued wages and other payroll liabilities	288,907	292,896
Deferred revenue	254,596	-
Due to other governmental units	878,402	576,080
Notes payable - current portion	74,911	73,108
Total current liabilities	<u>3,299,096</u>	<u>3,381,578</u>
Noncurrent liabilities		
Note payable - long-term portion	291,309	213,452
Compensated absences	306,785	344,931
Total noncurrent liabilities	<u>598,094</u>	<u>558,383</u>
Total liabilities	<u>3,897,190</u>	<u>3,939,961</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	413,534	448,920
Reserved for Medicaid savings	-	2,098,833
Reserved for risk management	73,563	52,907
Unrestricted	1,838,310	1,274,357
Total net assets	<u>\$2,325,407</u>	<u>\$3,875,017</u>

See Accompanying Notes To Financial Statements



Berrien Mental Health Authority  
Statement of Activities  
For The Year Ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$27,427,409</u>	<u>\$19,684,203</u>	<u>\$6,413,763</u>	(\$1,329,443)	(\$1,211,110)
General revenues					
Unrestricted investment earnings				118,949	36,668
Restricted investment earnings				4,032	5,289
Miscellaneous revenues				<u>23,685</u>	<u>28,240</u>
Total general revenues				146,666	70,197
Transfers to affiliates				<u>(366,833)</u>	<u>-</u>
Change in net assets				(1,549,610)	(1,140,913)
Net assets - beginning of year				<u>3,875,017</u>	<u>5,015,930</u>
Net assets - end of year				<u>\$2,325,407</u>	<u>\$3,875,017</u>

See Accompanying Notes To Financial Statements

## **FUND FINANCIAL STATEMENTS**

Berrien Mental Health Authority  
Balance Sheet  
Governmental Funds  
September 30, 2005 and 2004

	General Fund	
	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$4,307,859	\$5,552,808
Accounts receivable, net	510,959	470,712
Due from other funds	-	387,946
Due from other governmental units	52,321	92,798
Prepaid items	138,193	124,489
Cash and investments - Restricted	380,348	397,838
Total Assets	<u>\$5,389,680</u>	<u>\$7,026,591</u>
<b>Liabilities</b>		
Accounts payable	\$1,802,280	\$2,439,494
Accrued wages and other payroll liabilities	288,907	292,896
Due to other funds	20,400	-
Deferred revenue	254,596	-
Due to other governmental units	878,402	576,080
Total liabilities	<u>3,244,585</u>	<u>3,308,470</u>
<b>Fund balances</b>		
Reserved for prepaid items	138,193	124,489
Reserved for Medicaid savings	-	2,098,833
Reserved for compensated absences	306,785	344,931
Unreserved	<u>1,700,117</u>	<u>1,149,868</u>
Total fund balances	<u>2,145,095</u>	<u>3,718,121</u>
Total liabilities and fund balances	<u>\$5,389,680</u>	<u>\$7,026,591</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For The Year Ended September 30, 2005

Total fund balance - governmental funds	\$2,145,095
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Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add: capital assets	4,048,151
Deduct: accumulated depreciation	(3,268,397)

An internal service fund is used by management to cover the risk of  
overspending the Managed Care Specialty Services Program contract.  
The assets and liabilities of the internal service fund are included in  
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	73,563
--	--------

Some liabilities are not due and payable in the current period and  
therefore are not reported in the funds. Those liabilities consist of:

Deduct: Notes payable	(366,220)
Deduct: Compensated absences	(306,785)

Net assets of governmental activities	<u>\$2,325,407</u>
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See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For The Year Ended September 30, 2005 and 2004

	General Fund	
	2005	2004
<b>REVENUES</b>		
State grants		
Department of Community Health contract		
general fund formula and categorical	\$4,865,504	\$4,903,441
Adult Benefit Waiver	580,985	734,713
MI Child Capitation	25,469	27,078
Other State grants	26,057	26,278
Total State grants	<u>5,498,015</u>	<u>5,691,510</u>
Federal grants	<u>415,748</u>	<u>398,244</u>
Contributions - local units		
County appropriations	<u>500,000</u>	<u>500,000</u>
Charges for services		
Medicaid - Venture contract	18,814,694	20,216,609
Client and third party pay	730,178	713,436
Other contract revenue	139,331	156,228
Total charges for services	<u>19,684,203</u>	<u>21,086,273</u>
Interest and rents		
Interest	<u>118,949</u>	<u>36,668</u>
Other revenue		
United way	21,253	22,999
Miscellaneous	2,432	5,241
Total other revenue	<u>23,685</u>	<u>28,240</u>
Total revenues	26,240,600	27,740,935

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For The Year Ended September 30, 2005 and 2004

	General Fund	
	2005	2004
<b>EXPENDITURES</b>		
Health & Welfare - Mental Health		
Personnel costs	\$8,656,029	\$8,271,164
Operating expenditures	18,508,026	20,222,857
Capital outlay	334,490	459,083
Debt service	83,624	70,262
Total expenditures	27,582,169	29,023,366
Excess of revenues over expenditures	(1,341,569)	(1,282,431)
Other financing sources (uses)		
Loan proceeds	152,000	333,865
Operating transfers in (out) - other funds	(16,624)	227,780
Operating transfers in (out) - other governmental units	(366,833)	-
Excess of revenues and other sources over expenditures and other uses	(1,573,026)	(720,786)
Fund balance, October 1	3,718,121	4,438,907
Fund balance, September 30	\$2,145,095	\$3,718,121

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For The Year Ended September 30, 2005

Net change in fund balances - total governmental funds (\$1,573,026)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives as depreciation expense.

Add: capital outlay	334,490
Deduct: depreciation expense	(290,216)

An internal service fund is used by management to cover the risk of  
overspending the Managed Care Specialty Services Program contract.  
The net revenue (expense) of the fund attributable to those funds is  
reported with governmental activities.

20,656

Payment of principal on long-term debt is an expenditure in the governmental funds,  
but not in the statement of activities (where it reduces long-term debt).

72,340

Fixed assets acquired by long term loans are shown as an expenditure and other financing  
source in the governmental funds. The other financing source must be  
removed from the statement of activities; principal payments are applied  
to the long term liability; interest expense is recognized as it accrues.

(152,000)

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in the funds.

Plus: decrease in accrual for compensated absences	38,146
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Change in net assets of governmental activities

(\$1,549,610)

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Net Assets  
Proprietary Funds  
September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	\$53,163	\$440,853
Due from other funds	<u>20,400</u>	<u>-</u>
Total assets	73,563	440,853
Liabilities		
Due to other funds	<u>-</u>	<u>387,946</u>
Total liabilities	<u>-</u>	<u>387,946</u>
Net Assets		
Restricted	<u>73,563</u>	<u>52,907</u>
Total liabilities and net assets	<u><u>\$73,563</u></u>	<u><u>\$440,853</u></u>

See Accompanying Notes To Financial Statements



Berrien Mental Health Authority  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For The Years Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Non-operating revenues (expense)		
Interest income	\$4,032	\$5,289
Operating transfers		
Operating transfers in - other funds	16,624	-
Operating transfers out - other funds	-	(227,780)
Operating transfers out - other governmental units	<u>-</u>	<u>(10,486)</u>
Total operating transfers	16,624	(238,266)
Change in net assets	20,656	(232,977)
Net assets, beginning of year	<u>52,907</u>	<u>285,884</u>
Net assets, end of year	<u><u>\$73,563</u></u>	<u><u>\$52,907</u></u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Cash Flows  
Proprietary Funds  
For The Years Ended September 30, 2005 and 2004

	Internal Service Funds	
	2005	2004
Cash flows from operating activities		
Payments to other governmental entities	-	(\$1,593,951)
Internal activity - payments to other funds	(\$391,722)	(1,317)
Net cash used by operating activities	(391,722)	(1,595,268)
Cash flows from investing activities		
Interest revenue	4,032	5,289
Net (decrease) in cash	(387,690)	(1,589,979)
Cash and cash equivalents, beginning of year	440,853	2,030,832
Cash and cash equivalents, end of year	\$53,163	\$440,853
Reconciliation of operating income (loss) to net cash used by Operating Activities		
Operating income (loss)	-	-
Change in assets and liabilities		
Due to other funds	(\$391,722)	(\$11,803)
Due to other governmental units	-	(1,583,465)
Cash flows from operating activities	(\$391,722)	(\$1,595,268)

See Accompanying Notes To Financial Statements

**NOTES TO THE FINANCIAL STATEMENTS**

Berrien Mental Health Authority  
Notes To The Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Berrien Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Berrien County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Berrien Mental Health Authority  
Notes To The Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported separately in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Berrien Mental Health Authority  
Notes To The Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Berrien Mental Health Authority  
Notes To The Financial Statements

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Berrien Mental Health Authority  
Notes To The Financial Statements

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from Calhoun Community Mental Health Authority and the Michigan Department of Community Health.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.



Berrien Mental Health Authority  
Notes To The Financial Statements

**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Land	N/A
Buildings and Improvements	25
Furniture, Fixtures and Equipment	5
Vehicles	4
Capital Lease Obligations	5

Berrien Mental Health Authority  
Notes To The Financial Statements

**Cash – Restricted**

Cash is restricted for the future payment of compensated absences, since these amounts have been charged to the Department of Community Health. Additionally, cash is restricted for funds the Authority holds on behalf of certain clients.

**Compensated Absences**

Authority policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present expenditures and the related liability when these compensated absences are earned.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings and compensated absences are examples of the latter.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Inpatient**

The amount recorded for inpatient liability is based on management's estimate. This estimate is based on 1) the number of clients at each DCH facility, 2) the number of days each client is at the DCH facility, and 3) the daily rate charged by each DCH facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Berrien Mental Health Authority  
Notes To The Financial Statements

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority incurred expenditures in excess of the amounts appropriated as shown on page 28 of this report as unfavorable variances.

**NOTE 3 - DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30<sup>th</sup> the carrying amount of the Authority's cash and cash equivalents are as follows:

	<b>2005</b>	<b>2004</b>
Petty cash	\$1,679	\$475
Cash and cash equivalents	4,359,343	5,993,186
Cash and cash equivalents - restricted	380,348	397,838
<b>Totals</b>	<b>\$4,741,370</b>	<b>\$6,391,499</b>

Berrien Mental Health Authority  
Notes To The Financial Statements

At year end, the carrying amount of deposits for the Authority was \$4,739,691, and the bank balance was \$5,685,404. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consists of the following:

	<b>2005</b>	<b>2004</b>
Department of Community Health – OBRA	\$30,115	\$53,397
Department of Community Health – PATH Grant	3,157	-
Department of Community Health – Child Consultation	18,650	-
Calhoun Community Mental Health Authority	399	39,401
<b>Totals</b>	<b>\$52,321</b>	<b>\$92,798</b>

Berrien Mental Health Authority  
Notes To The Financial Statements

**Changes in Capital Assets**

A summary of changes in the Authority's capital assets is as follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	-	\$38,000	-	\$38,000
Buildings and Improvements	-	152,000	-	152,000
Furniture, Fixtures and Equipment	\$2,702,887	54,403	-	2,757,290
Vehicles	128,771		-	128,771
Capital Lease Obligations	882,003	90,087	-	972,090
Sub-totals	3,713,661	334,490	-	4,048,151
Accumulated Depreciation	(2,978,181)	(290,216)	-	(3,268,397)
<b>Totals</b>	<b>\$735,480</b>	<b>\$44,274</b>	<b>-</b>	<b>\$779,754</b>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Berrien Mental Health Authority  
Notes To The Financial Statements

**Due to Other Governmental Units**

As of September 30, this liability consists of the following:

	<b>2005</b>	<b>2004</b>
State of Michigan – State Inpatient/Residential Care	\$203,275	\$327,192
Calhoun County CMH Authority – Medicaid Cost Settlement	308,294	248,888
Calhoun County CMH Authority – Transfer of Unspent Medicaid Savings	366,833	-
<b>Totals</b>	<b>\$878,402</b>	<b>\$576,080</b>

**Long Term Liabilities**

Compensated Absences

Authority policy allows full time employees to accumulate vacation time at various rates, depending on the employee's length of service with the Authority. As of September 30, 2005 and 2004, this liability was \$306,785 and \$344,931, respectively.

Vehicle Lease

During the 2002 fiscal year, the Authority entered into a capital lease contract for the purchase of a vehicle. Payments are due monthly in the amount of \$568, including interest at the rate of .9% per annum. As of September 30, 2005 and 2004, the balance of this loan was \$568 and \$7,442, respectively.

During the 2004 fiscal year, the Authority entered into two loan agreements for the purchase of two vehicles. Payments are due monthly in the amount of \$1,106, including interest at the rate of 6.49% per annum. As of September 30, 2005 and 2004, the balance of these loans was \$30,542 and \$41,440, respectively.

Telephone System Loan

During the 2004 fiscal year, the Authority entered into a loan agreement for the purchase of a telephone system. Payments are due monthly in the amount of \$5,165, including interest at the rate of 2.99% per annum. As of September 30, 2005 and 2004, the balance of this loan was \$186,918 and \$237,678, respectively.

Berrien Mental Health Authority  
Notes To The Financial Statements

Real Estate Loan

During the 2005 fiscal year, the Authority entered into a loan agreement for the purchase of real estate. Payments are due monthly in the amount of \$1,111, including interest at a rate of 3.83% per annum. As of September 30, 2005 and 2004, the balance of this loan was \$148,192 and \$0, respectively.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2005 are as follows, including total interest payments of \$57,892.

Year Ended September 30,	Amount
2006	\$89,152
2007	88,584
2008	83,051
2009	23,336
2010	13,332
2011-2015	66,660
2016-2020	59,997

The changes in long term liabilities during the 2005 fiscal year are as follows:

Liability	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$344,931	-	\$38,146	\$306,785
Vehicle Loans	48,882	-	17,772	31,110
Telephone System	237,678	-	50,760	186,918
Real Estate	-	\$152,000	3,808	148,192
<b>Totals</b>	<b>\$631,491</b>	<b>\$152,000</b>	<b>\$110,486</b>	<b>\$673,005</b>

Berrien Mental Health Authority  
Notes To The Financial Statements

**Leases**

The Authority has entered into various operating leases for the use of real property and vehicles. Operating leases do not give rise to property rights or lease obligations, and therefore, are not capitalized.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2005:

<b>YEAR ENDING SEPTEMBER 30,</b>	<b>AMOUNT</b>
2006	\$446,777
2007	427,847
2008	429,047
2009	214,670
2010	214,670
2011 – 2015	375,673

**NOTE 4 - OTHER INFORMATION**

**Risk Management**

Internal Service Funds

During the September 30, 1999 fiscal year, the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund. Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the contract requirements than revenue provided by the contract.



Berrien Mental Health Authority  
Notes To The Financial Statements

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000,000 for property and crime. The premium charged to the Authority by MMRMA was \$114,746 for the period July 1, 2005 to July 1, 2006.

**Retirement Systems**

**401(a) Money Purchase Plan**

Plan Description

Effective January 1, 1998, the Authority was registered as a new governmental entity, due to Authority Status. Accordingly, the employees of the Authority voted to join a 401(a) Money Purchase Plan instead of participating in the Social Security system.

Funding Policy

Full time employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions for the years ended September 30, 2005 and 2004 were 4.9% of employee wages.

Employees of the Authority not eligible to participate in this plan are covered by the Social Security system.

Berrien Mental Health Authority  
Notes To The Financial Statements

**Pension Plan**

Plan Description

Substantially all employees of the Authority are covered by the Berrien County Employees Amended Retirement Plan (the "Plan"). The Plan provides retirement, disability and death benefits to members and their beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The Authority's payroll for employees covered by the Plan for the 2005 and 2004 fiscal years was \$6,595,136 and \$6,403,603, respectively.

Funding Policy

All Authority employees who work more than 1,000 hours per year are eligible to participate in the plan. Members who retire at or after age 60 with 5 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.7% of their final 5-year average earnings, as defined, for each year of credited service.

Vested employees may retire on or after age 55 with 5 years of service, or after 25 years of service regardless of age, and receive reduced retirement benefits. The plan also provides death and disability benefits.

Covered employees are required to contribute 4.5% of their salary to the plan. The Authority contributes a percentage of payroll calculated and recommended each year by the plan's actuary. For the years ended September 30, 2005 and 2004, the Authority contributed \$93,221 and \$66,257, respectively, to this retirement plan.

The actuarial accrued liability at December 31, 2004 (the date of the most recent available information) for the plan as a whole, determined through an actuarial valuation performed as of that date, was \$111.9 million. The plan's valuation assets at December 31, 2004 were \$118.4 million resulting in funding in excess of the actuarial accrued liability of \$6.5 million. Valuation assets, determined by the actuary, are equal to reported fair value assets, adjusted for amortization of actuarial gains and losses.

Berrien Mental Health Authority  
Notes To The Financial Statements

For Berrien Mental Health Authority, the actuarial accrued liability at December 31, 2004, determined through an actuarial valuation performed as of that date, was \$9.4 million. The plan's valuation assets allocated to the Authority at December 31, 2004 were \$14.1 million resulting in funding in excess of the actuarial accrued liability of \$4.7 million.

Historical trend information showing the plan's progress in accumulating sufficient assets to pay benefits when due, and other information regarding the plan, is presented in the financial statements of the county of Berrien, Michigan for the year ended December 31, 2004.

In addition to pension benefits, employees of the Authority who retire under provisions of the plan may elect to continue their hospitalization and health care insurance coverage, provided they pay fifty percent of the actual cost of premiums.

#### **Compliance Audits**

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

#### **Venture Contract**

Beginning October 1, 2002, the Medicaid Funds for Barry, Berrien, Branch, Calhoun and Van Buren Counties will be paid to Calhoun County Community Mental Health Authority, also known as Summit Pointe. The contract for these Medicaid Funds will be between the MDCH and Summit Pointe, and will be administered by a division of Summit Pointe, known as Venture. Venture is an administrative board and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITFRA). The Venture administrative board consists of two voting Members from each of the five member counties.

Summit Pointe in turn contracts with Berrien Mental Health Authority for Medicaid funding.

**REQUIRED SUPPLEMENTAL INFORMATION**

Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For The Year Ended September 30, 2005

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
<b>Revenues</b>				
State grants				
Department of Community Health contract general fund formula and categorical	\$4,909,184	\$5,133,256	\$4,865,504	(\$267,752)
Adult Benefit Waiver	756,060	600,647	580,985	(19,662)
MI Child Capitation	-	-	25,469	25,469
Other State grants	-	-	26,057	26,057
Total State grants	<u>5,665,244</u>	<u>5,733,903</u>	<u>5,498,015</u>	<u>(235,888)</u>
Federal grants	<u>381,492</u>	<u>417,501</u>	<u>415,748</u>	<u>(1,753)</u>
Contributions - local units				
County appropriations	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Charges for services				
Medicaid - Venture contract	21,261,390	19,220,726	18,814,694	(406,032)
Client and third party pay	486,234	618,629	730,178	111,549
Other contract revenue	<u>147,951</u>	<u>171,927</u>	<u>139,331</u>	<u>(32,596)</u>
Total charges for services	<u>21,895,575</u>	<u>20,011,282</u>	<u>19,684,203</u>	<u>(327,079)</u>
Interest and rents				
Interest	<u>38,268</u>	<u>91,391</u>	<u>118,949</u>	<u>27,558</u>
Other revenue				
United way	19,000	17,425	21,253	3,828
Miscellaneous	<u>22,362</u>	<u>18,473</u>	<u>2,432</u>	<u>(16,041)</u>
Total other revenue	<u>41,362</u>	<u>35,898</u>	<u>23,685</u>	<u>(12,213)</u>
Total revenues	<u>28,521,941</u>	<u>26,789,975</u>	<u>26,240,600</u>	<u>(549,375)</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For The Year Ended September 30, 2005

Expenditures	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$8,809,242	\$8,947,034	\$8,656,029	\$291,005
Operating expenditures	18,899,824	19,158,821	18,508,026	650,795
Capital outlay	-	-	334,490	(334,490)
Debt service	-	-	83,624	(83,624)
Total expenditures	<u>27,709,066</u>	<u>28,105,855</u>	<u>27,582,169</u>	<u>523,686</u>
Revenues over (under) expenditures	812,875	(1,315,880)	(1,341,569)	(25,689)
Other financing sources (uses)				
Loan proceeds	-	-	152,000	152,000
Operating transfers in (out) - other funds	-	-	(16,624)	(16,624)
Operating transfers in (out) - other governmental units	-	-	(366,833)	(366,833)
Excess of revenues and other sources over expenditures and other uses	812,875	(1,315,880)	(1,573,026)	(257,146)
Fund balance, beginning of year	<u>3,718,121</u>	<u>3,718,121</u>	<u>3,718,121</u>	<u>-</u>
Fund balance, end of year	<u>\$4,530,996</u>	<u>\$2,402,241</u>	<u>\$2,145,095</u>	<u>(\$257,146)</u>

See Accompanying Notes To Financial Statements

**OTHER SUPPLEMENTAL INFORMATION**

Berrien Mental Health Authority  
Supporting Schedule of Personnel Costs  
For The Years Ending September 30, 2005 and 2004

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Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
<b>Personnel costs</b>		
Salaries and wages	\$6,595,136	\$6,403,603
Fringe benefits	<u>2,060,893</u>	<u>1,867,561</u>
Total personnel costs	<u><u>\$8,656,029</u></u>	<u><u>\$8,271,164</u></u>

See Accompanying Notes To Financial Statements



Berrien Mental Health Authority  
Supporting Schedule of Operating Expenditures  
For The Years Ending September 30, 2005 and 2004

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Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
<b>Operating expenditures</b>		
Communications	\$106,868	\$150,866
Contractual services	1,800,124	1,571,200
Grant expense	128,481	152,991
Health care expenses	14,163,074	15,953,810
Insurance	165,740	208,487
Legal and accounting	105,704	156,246
Local funds contribution	384,498	384,498
Rents	539,765	511,613
Repairs and maintenance	289,799	298,160
Staff development	116,401	154,236
Supplies and other	391,834	389,953
Travel	212,511	141,349
Utilities	70,667	98,817
Venture services	<u>32,560</u>	<u>50,631</u>
 Total operating expenditures	 <u><u>\$18,508,026</u></u>	 <u><u>\$20,222,857</u></u>

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Berrien Mental Health Authority  
Benton Harbor, Michigan

We have audited the financial statements of the governmental activities and each major fund of Berrien Mental Health Authority (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority, in a separate letter dated November 23, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Co, PC*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 23, 2005



MANAGEMENT LETTER

RECEIVED  
DEPT. OF TREASURY  
MAR 30 2006  
LOCAL AUDIT & FINANCE DIV.

Board of Directors  
Berrien Mental Health Authority  
Benton Harbor, Michigan

In planning and performing our audit of the financial statements for Berrien Mental Health Authority for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 23, 2005 on the financial statements of Berrien Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 23, 2005

### **Monitor Accounts Receivable and Review the Collection Policy**

In the past year, the amount of the Authority's accounts receivable has increased. Accordingly, Management should continue to monitor the accounts receivable on a monthly basis, paying particular attention to an aged accounts receivable listing. In addition, we recommend that the Authority review its credit and collection policy to determine whether additional steps could be made to aid in collection of accounts. We believe that once a receivable is over 90 days old, it becomes increasingly difficult to collect. Uncollected accounts result in a direct decrease in fund balance and also a reduction of interest income.

### **Rejection Notices – Medicaid Fee for Service**

The Authority provides services to certain clients that are billed to Medicaid as a fee for service arrangement. During our audit, we found that certain original billings were rejected by the payor and that Management failed to address these rejections on a timely basis. We recommend the Authority establish a policy in which all rejections for services provided and billed are re-billed and monitored on a timely basis.

### **GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.